# Long-Term Care Hospital Prospective Payment System

## What Is a High Cost Outlier?

A high cost outlier is an adjustment to the Federal payment rate for Long-Term Care Hospital (LTCH) stays with unusually high costs that exceed the typical cost for a Long-Term Care-Diagnosis Related Group (LTC-DRG). This adjustment strongly improves the accuracy of the Long-Term Care Hospital Prospective Payment System (LTCH PPS) in determining patient and hospital resource costs. High cost outlier payments reduce the LTCH's financial losses that result from treating patients who require more costly care. Additionally, the outlier policy reduces the incentives to underserve high cost patients. As a result of the additional payment, the LTCH's loss is limited to the fixed-loss amount and the percentage of costs above the marginal cost factor.

## What Type of Cases Result in a High Cost Outlier Payment?

A case can result in a high cost outlier payment if the cost of the patient's stay is extraordinarily high when compared to the costs of most cases grouped to the same LTC-DRG.

## How Does a Case Qualify for a High Cost Outlier Payment?

A case qualifies for a high cost outlier payment if the estimated cost of the case exceeds the high cost outlier threshold.

## What Is the High Cost Outlier Threshold?

The high cost outlier threshold equals the LTCH PPS adjusted Federal payment for the case (either the applicable short-stay outlier or full LTC-DRG payment) plus the fixed-loss amount (see Calculation 1). The fixed-loss amount for the 2007 Rate Year is $14,887 (effective July 1, 2006).

### *Background*

Long-Term Care Hospitals (LTCHs) treat patients with multi-comorbidities requiring long-stay hospital-level care. To be designated as an LTCH, Medicare requires that a hospital typically demonstrates that on average, it has an average length of stay for its Medicare patients of greater than 25 days. The Balanced Budget Refinement Act of 1999 (BBRA) mandated a new discharge-based prospective payment system for LTCHs. The Long-Term Care Hospital Prospective Payment System (LTCH PPS) replaced the previous cost-based system. Congress provided further requirements for the LTCH PPS in the Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP) Benefits Improvements and Protection Act of 2000 (BIPA).

### *What Are Long-Term Care-Diagnosis Related Groups?*

The LTCH PPS uses Long-Term Care-Diagnosis Related Groups (LTC-DRGs) as a patient classification system. Each patient stay is grouped into an LTC-DRG based on diagnoses (including secondary diagnoses), procedures performed, age, gender, and discharge status. Each LTC-DRG has a pre-determined Average Length of Stay (ALOS), or the typical Length of Stay (LOS) for a patient classified to the LTC-DRG. Under the LTCH PPS, an LTCH receives payment for each Medicare patient, based on the LTC-DRG to which that patient's stay is grouped. This grouping reflects the typical resources used for treating such a patient. Cases assigned to an LTC-DRG are paid according to the Federal payment rate, including adjustments. One type of case-level adjustment is a high cost outlier.

# High Cost Outlier Fact Sheet September 2006

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# Long-Term Care Hospital Prospective Payment System High Cost Outlier Fact Sheet

## How Are High Cost Outliers Paid?

High cost outlier payments are made in addition to the applicable short-stay outlier or full LTC-DRG payment established for the case. A high cost outlier payment is equal to 80 percent of the difference between the estimated cost of the case and the outlier threshold.

For each LTCH PPS Rate Year, the Centers for Medicare & Medicaid Services (CMS) establishes a fixed-loss amount so that the total high cost outlier payments in a given year are projected to be equal to 8 percent of the total LTCH PPS payments estimated for that year (i.e., the applicable short-stay outlier or full LTC-DRG payments plus high cost outlier payments).

## How Is the Estimated Cost of the Case Determined?

The estimated cost of the case is determined by multiplying the Medicare covered charges for the case by the LTCH's overall Cost-to-Charge Ratio (CCR). Please refer to the following calculation examples to determine Medicare covered charges when a patient's benefits expire during the LTCH stay.

## How Are High Cost Outlier Payments Calculated?

To calculate a high cost outlier payment, first determine the estimated cost of the case and the high cost outlier threshold. Next, compare the estimated cost of the case and the high cost outlier threshold to determine if the case qualifies for a high cost outlier payment (i.e., the cost of the case exceeds the high cost outlier threshold). If the case qualifies for a high cost outlier payment, the cost of the case and the high cost outlier threshold are then used to calculate the amount of the high cost outlier payment. The information shown below is an example of a high cost outlier payment calculation for a Medicare patient in an LTCH located in Chicago, IL [Core-Based Statistical Area (CBSA) 16974]:

| Data Used In The Following Example Payment Calculation | |
|---|---|
| Full LTC-DRG Payment for LTC-DRG 113 | $57,813.75 |
| Fixed-Loss Amount (effective July 1, 2006) | $14,887 |
| Overall Hospital Cost-to-Charge Ratio (CCR) | 0.8114 |
| **Calculation 1: High Cost Outlier Threshold Calculation** | |
| *LTC-DRG Payment + Fixed-Loss Amount* | |
| $57,813.75<br>+ $14,887<br>**$72,700.75** | Full LTC-DRG Payment For LTC-DRG 113<br>Fixed-Loss Amount<br>**High Cost Outlier Threshold** |



Visit *www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp* on the CMS website for more information.

| Calculation 2: Estimated Cost of Case Calculation | |
|---|---|
| *Medicare Covered Charges x Overall Hospital CCR* | |
| $187,895.14<br>x 0.8114<br>$152,458.12 | Medicare Covered Charges<br>Overall Hospital CCR<br>Estimated Cost of Case |
| *For a high cost outlier, the Medicare covered charges are the Medicare allowable charges incurred during the days of the stay that the patient has a Medicare benefit day (either regular, coinsurance, and/or lifetime reserve) available, not the charges related to the LOS for the episode of care.* | |
| **Calculation 3: High Cost Outlier Payment Calculation** | |
| *80% x (Estimated Cost of Case - High Cost Outlier Threshold)* | |
| $152,458.12<br>- $72,700.75<br>$79,757.37<br>X 0.80<br>**$63,805.90** | Estimated Cost of Case (See Calc. 2)<br>High Cost Outlier Threshold (See Calc. 1)<br><br>Decimal Representation of 80%<br>**High Cost Outlier Payment** |

In the example above, the case would be paid $121,619.65 (the full LTC-DRG payment of $57,813.75 plus the high cost outlier payment of $63,805.90). Based on updated data, the budget neutrality offset for the 2007 Rate Year is 1.000 (a 0.0 percent reduction to all LTCH payments).

## How Is the Fixed-Loss Amount Determined?

CMS determined the fixed-loss amount using CCRs from the Provider Specific File (PSF). For those LTCHs for which CCRs in the PSF are unavailable, either CMS computes a CCR based on the latest available cost report data in the Healthcare Cost Reporting Information System (HCRIS) and corresponding claims data in the MedPAR files or assigns the applicable statewide average CCR. The fixed-loss amount that is used in the calculation for the high cost outlier payment formula results in outlier payments that are projected to equal to 8 percent of estimated total LTCH PPS payments (i.e., the applicable short-stay outlier or full LTC-DRG payments plus high cost outlier payments). CMS recalculates the fixed-loss amount annually.

## How Is the Cost-to-Charge Ratio (CCR) Calculated?

At the time of claim processing, Fiscal Intermediaries use an LTCH's CCR calculated from the latest settled or tentatively settled cost report (whichever is later). Additionally, the following CCR revisions may apply.

- **CCR Revisions Requested by CMS:** Fiscal Intermediaries may use an alternative CCR, as directed by CMS, which more accurately reflects recent substantial increases or decreases in a hospital's charges.
- **CCR Revisions Requested by the LTCH:** Upon approval by the respective Regional Office, LTCHs may request that Fiscal Intermediaries use a different (higher or lower) CCR. This request must be based on substantial evidence.

### Medicare Contracting Reform (MCR) Update

Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) enacted numerous contracting reforms. A key aspect of these reforms is that Medicare will begin integrating Fiscal Intermediaries (FIs) and Carriers into a new single authority, called a Medicare Administrative Contractor (MAC). As of October 1, 2005, new Medicare Contractors are called MACs. Also, from October 2004 through October 2011, all existing FI and Carrier contracts will be transitioned into MAC contracts, using competitive procedures. Providers may access the most current MCR information to determine the impact of these changes at *www.cms.hhs.gov/MedicareContractingReform/* on the CMS website.

- **CCR Determinations for LTCHs with CCRs Above the Maximum Threshold (Ceiling):**
  Fiscal Intermediaries will assign the statewide average CCR to LTCHs with CCRs above the maximum threshold (ceiling), which is determined annually by CMS. For FY 2007, the LTCH "total" CCR ceiling is 1.321. Fiscal Intermediaries no longer assign the statewide average CCR to LTCHs with CCRs below the minimum threshold (floor). In those cases, Fiscal Intermediaries will use the LTCH's actual CCR.

In addition, the LTCH PPS outlier policy allows for reconciliation of high cost outlier (and short-stay outlier) payments upon cost report settlement. This reconciliation accounts for differences between the estimated CCR and the actual CCR for the period during which the discharge occurs.

## Who Determines If a High Cost Outlier Payment Applies?

Upon receipt of the claim, the Fiscal Intermediary will determine high cost outlier payments using the PRICER software. The Fiscal Intermediary will also determine if enough benefit days existed for each medically necessary day in the outlier period. If the patient had enough benefit days, the Fiscal Intermediary will process the claim as usual, with no other action needed from the LTCH. If the patient did not have enough benefit days, the Fiscal Intermediary will return the claim, with the appropriate high cost outlier threshold amount indicated, to the LTCH for correction.

## Can a Case Qualify for Both Short-Stay Outlier and High Cost Outlier Payments?

If the estimated cost of the short-stay outlier case exceeds the high cost outlier threshold, the short-stay outlier case would also qualify as a high cost outlier case. For short-stay outlier cases, the outlier threshold is determined by adding the fixed-loss amount to the applicable short-stay outlier payment for the LTC-DRG (not the full LTC-DRG payment). Please see the Short-Stay Outliers Fact Sheet for more information on short-stay outliers.

## What if the Patient's Benefits Expire During the LTCH Stay?

Under the LTCH PPS, Medicare will only make a high cost outlier payment for days that the beneficiary has Medicare coverage (either regular, coinsurance, or lifetime reserve days) for the period (or portion of the stay) beyond the high cost outlier threshold (see Calculation 1). Additionally, Medicare will only make high cost outlier payments for covered costs associated with medically necessary days for which the patient has a benefit day available.

### *Final Rules That Affect the LTCH PPS*

CMS published six Final Rules affecting Medicare payments to LTCHs on the following dates:

**May 7, 2004 -** the 2005 Rate Year (RY) Final Rule was published, increasing the Medicare payment rates for LTCHs, expanding the existing interrupted stay policy, finalizing the requirements for a satellite or remote location to qualify as an LTCH, and changing the ALOS calculation for LTCH status.

**December 30, 2004 -** the Fiscal Year (FY) 2005 IPPS Final Rule was published, outlining a number of provisions contained in the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA).

**May 6, 2005 -** the RY 2006 Final Rule was published, updating the annual payment rates effective July 1, 2005. In addition to revising the wage index, outlier fixed loss amount and the budget neutrality factor, the Final Rule also clarified the notification policy for co-located LTCHs and satellites of LTCHs and adopted new labor market area definitions based on Core-Based Statistical Areas (CBSAs).

**August 12, 2005 -** The FY 2006 IPPS Final Rule was published, containing the LTC-DRGs, relative weights, and the ALOS for FY 2006.

**May 12, 2006 -** the RY 2007 Final Rule was published, updating the LTCH PPS payment rates, effective July 1, 2006. In addition, the Final Rule also revised the Short-Stay Outlier policy and removed the 3-day surgical exception to the Interrupted Stay policy.

**August 18, 2006 -** the FY 2007 IPPS Final Rule was published, which included revisions to the methodology for determining the LTCH PPS CCR ceiling and applicable statewide average CCRs, as well as clarification and codification of the existing policy regarding LTCHs' CCRs and the reconciliation of outlier payments.



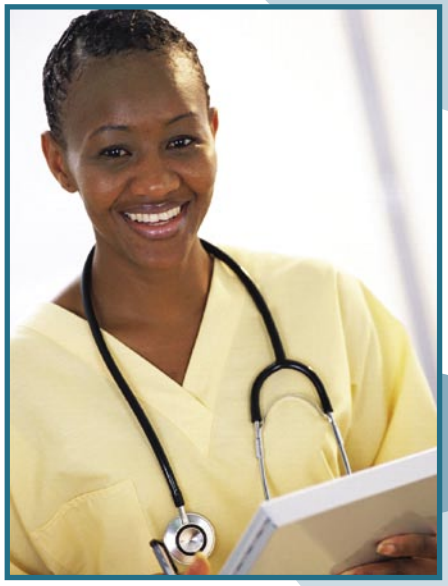
Visit *www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp* on the CMS website for more information.

Example:

| If… | Then… | Example |
|---|---|---|
| A patient's benefits are exhausted before qualifying for a full LTC-DRG payment and the cost of covered care exceeds the high cost outlier threshold for the applicable short-stay outlier payment... | The LTCH receives a high cost outlier payment in addition to the short-stay outlier payment for the covered medically necessary benefit days. | A patient is admitted to the LTCH with 5 remaining benefit days, and is grouped to an LTC-DRG with an ALOS of 30 days. The patient does not have enough regular benefit days to trigger a full LTC-DRG payment (5/6 of the ALOS for the LTC-DRG) for this stay. The lack of benefit days qualifies the case for a short-stay outlier payment. The facility's cost for providing covered services during the 5 benefit days exceeds the high cost outlier threshold. Therefore, the case also qualifies for a high cost outlier payment for all costs above the high cost outlier threshold for Days 1-5. The patient is liable for Day 6 through discharge. |
| **If…** | **Then…** | **Example** |
| A patient's benefits are exhausted after qualifying for a full LTC-DRG payment and the cost of covered care exceeds the high cost outlier threshold for the applicable full LTC-DRG payment... | The LTCH receives a high cost outlier payment in addition to the full LTC-DRG payment for the covered medically necessary benefit days. | A patient is admitted to the LTCH with 36 remaining benefit days, and is grouped to an LTC-DRG with an ALOS of 30 days. By Day 33, the patient's cost of care has exceeded the high cost outlier threshold. The case qualifies for both a full LTC-DRG payment and a high cost outlier payment for all covered costs (for which there is a benefit day available) above the high cost outlier threshold. The patient is liable for Day 37 through discharge. |
| **But. . .** | | |
| *If…* | *Then…* | *Example* |
| A patient qualifies for a full LTC-DRG payment and uses all of his or her regular benefit days for a stay before the high cost outlier threshold is exceeded… | The LTCH receives only a full LTC-DRG payment. A high cost outlier payment is not made by Medicare under the LTCH PPS.<br><br>In addition, the patient is not liable for the costs that are incurred until the day after the high cost outlier threshold for the LTC-DRG is exceeded. | A patient is admitted to the LTCH with 36 remaining benefit days, and is grouped to an LTC-DRG with an ALOS of 30 days. The patient's cost of care does not exceed the high cost outlier threshold until Day 45. Since the patient has exhausted all of his or her benefit days before reaching the high cost outlier threshold, the case is not eligible for a high cost outlier payment. The patient is not liable for covered costs from Days 37-45. However, the patient is liable for Day 46 through discharge. This case receives only the full LTC-DRG payment because it does not qualify for a high cost outlier payment under the LTCH PPS. |

Medicare provides 90 covered benefit days for an episode of care under the inpatient hospital benefit. In addition, each patient has 60 lifetime reserve days. These lifetime reserve days may be used to cover additional non-covered days of an episode of care that exceeds 90 days.

### If the Patient's Benefits Expire During the LTCH Stay, How Is Any Applicable High Cost Outlier Payment Calculated?



If the patient's benefits expire during the LTCH stay, first determine on what day of the stay the cost of the case reaches the high cost outlier threshold (using charges per day and the CCR). Then, determine the number of benefit days the beneficiary has available. Only the costs for the days after the cost of the case reaches the high cost outlier threshold amount for which the patient has benefit days available are used in the calculation of a high cost outlier payment. If the patient remains under care following the expiration of benefits, the patient is liable for the costs of those remaining days.

### How Will the Reconciliation of High Cost Outlier Payments Affect a Beneficiary's Lifetime Reserve Days and Eligibility for Coverage Under Medigap and Medicaid Programs?

Any changes to an LTCH's outlier payment made as a result of reconciliation will not retroactively affect a beneficiary's lifetime reserve days or coverage status under Medigap or Medicaid. Specifically, no retroactive adjustments will be made to determine the day that a beneficiary's stay moves to high cost outlier status. Therefore, no retroactive adjustments will be made to lifetime reserve days used or available. Similarly, no retroactive adjustments will be made to beneficiary benefits and payments under Medigap and Medicaid.

### Where Can I Find More Information about the LTCH PPS?

The following online references provide more information about the LTCH PPS:

- The Medicare Learning Network Web Page

  The Medicare Learning Network (MLN) is the brand name for official CMS educational products and information for Medicare fee-for-service providers. For additional information visit the Medicare Learning Network's web page at *www.cms.hhs.gov/MLNGenInfo* on the CMS website.
- Long-Term Care Prospective Payment System Web Page

  *www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp*

  The Long-Term Care Hospital Web Page provides the Final Rules and additional LTCH PPS-related documents.
- LTCH PPS Press Release Updating the LTCH PPS for Rate Year 2007

  *www.cms.hhs.gov/apps/media/press/release.asp?Counter=1848*

  The press release summarizes how Medicare is updating the format and data of the LTCH PPS system for Rate Year 2007. These changes were also published in the Federal Register on May 12, 2006.
- LTCH PPS Final Rule on Annual Payment Rate Updates and Policy Changes

  *www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1485F.pdf*

  The LTCH PPS Final Rule provides a more in-depth look at the changes for Rate Year 2007.

- Federal Register Notice for Hospital Inpatient Prospective Payment System (IPPS) FY 2007 Final Rule (CMS-1488-F)

  *www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1488F.pdf*

  The FY 2007 IPPS Final Rule establishes changes to the methodology for determining the CCR ceiling and applicable statewide average CCRs used under the LTCH PPS, as well as clarification and codification of existing policy regarding the determination of LTCHs' CCRs and the reconciliation of LTCH PPS outlier payments. This Final Rule also contains the LTC-DRGs, relative weights, ALOS, and other IPPS-excluded hospital policy changes that are effective October 1, 2006, under the LTCH PPS.
- CMS Manual System - Medicare Claims Processing Manual - Update-Long Term Care Hospital Prospective Payment System (LTCH PPS) Rate Year 2007 (Transmittal 981)

  *www.cms.hhs.gov/transmittals/downloads/R981CP.pdf*

  The CMS Manual System - Medicare Claims Processing Manual update provides updated payment rates, provisions, and updates to the Medicare Claims Processing Manual for the LTCH PPS Rate Year 2007.

Questions about high cost outliers and the LTCH PPS can be emailed to *ltchpps@cms.hhs.gov*.

## Where Can I Find More Information about ICD-9-CM Coding?

The LTCH PPS Final Rule emphasized that proper coding is essential for correct diagnosis and procedure reporting. The following online references provide ICD-9-CM coding guidance:

- The ICD-9-CM Official Guidelines for Coding and Reporting

  *www.cdc.gov/nchs/data/icd9/icdguide.pdf*

  The LTCH PPS Final Rule stated that the *ICD-9-CM Official Guidelines for Coding and Reporting* is essential reading for understanding how to report the proper diagnosis and procedure codes that are used in determining the LTC-DRG payment amounts.
- Updates to the ICD-9-CM Diagnosis and Procedure Codes

  *www.cms.hhs.gov/ICD9ProviderDiagnosticCodes/*

  This website identifies the activities (including public meeting schedules and agendas) of the ICD-9-CM Coordination and Maintenance Committee charged with maintaining and updating the ICD-9-CM coding system.